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# Message Text

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11
ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 AGR-10 /101 W
---------- 098809
R 211455Z JUL 76
FM AMEMBASSY TEGUCIGALPA
TO SECSTATE WASHDC 4000
INFO AMEMBASSY GUATEMALA
AMEMBASSY MANAGUA
AMEMBASSY SAN JOSE
AMEMBASSY SAN SALVADOR

UNCLAS TEGUCIGALPA 3518

GUATEMALA FOR ROCAP

E.O. 11652: N/A
TAGS: EFIN, HO
SUBJ: BALANCE OF PAYMENTS: HONDURAS

REF: STATE 0119

1. BASED UPON FIRST QUARTER EXPERIENCE THE CENTRAL BANK HAS MODIFIED SEVERAL CY 76 TRADE AND NATIONAL ACCOUNT PROJECTIONS. ALL FIGURES ARE IN MILLIONS OF U.S. DOLLARS.

2. EXPORTS OF GOODS AND SERVICES HAVE BEEN MODIFIED UPWARD DUE TO STRONG COFFEE AND BANANA PRICES, AND INCREASED VOLUME OF BANANA EXPORTS AND GENERAL STRONG INTERNATIONAL PRICES FOR HONDURAN AGRICULTURAL AND FORESTRY EXPORTS. THE PROJECTION FOR GOODS AND SERVICES EXPORTS IS $378.6, UP 17.2 PERCENT OVER 1975.

3. ONLY MINOR CHANGES ARE EXPECTED IN TRANSFERS, OFFICIAL CAPITAL AND PRIVATE CAPITAL, BUT THESE ARE POSITIVE CHANGES IN THE UNCLASSIFIED

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AMOUNT OF ABOUT $9 OVER THE TOTAL REPORTED REFTEL.

4. THE GDP IN CURRENT DOLLARS INDICATES A 12.5 PERCENT INCREASE OVER 1975. IN CONSTANT TERMS, THE INCREASE IS PRESENTLY CALCULATED

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AT 4.9 PERCENT, BUT IS SUBJECT TO UPWARD MODIFICATION. THIS ESTIMATE OF GROWTH APPEARS TO BE CONSERVATIVE BECAUSE THE CONSTANT GROWTH IS DETERMINED FROM GDP DEFLATOR UTILIZED IN 1975, WHEN PRICES WERE CALCULATED TO HAVE INCREASED AT A RATE OF 8.8 PERCENT. THE PRESENT ESTIMATE OF PRICE INFLATION IS NEARER 6.5 PERCENT. ALTHOUGH A FY 76 GDP DEFLATOR HAS NOT BEEN CALCULATED BASED UPON THE FIRST QUARTER FIGURES, IT WOULD APPEAR THAT A REAL RATE OF GROWTH ON THE ORDER OF NEAR 6 PERCENT IS PROBABLE.

5. A RATE OF GROWTH BETWEEN 5 AND 6 PERCENT IS SUGGESTED BY THE CENTRAL BANK IN PRIVATE DISCUSSIONS AND IS CONSISTENT WITH A RECOVERY OF THE ECONOMY FROM HURRICAN AND OTHER PROBLEMS IN 1974-75. THE CENTRAL BANK, ALWAYS CONSERVATIVE, VIEWS THE FIRST QUARTER RESULTS AND A NEAR BALANCE ON TRADE AS SEASONAL AND REFLECTING STRONG EXPORT PERFORMANCE OF COFFEE WHICH NOW AT THE END OF THE FIRST HALF FINISHED ITS EXPORT SEASON. IN FURTHER CORRECTION FOR FY 76, IT IS EXPECTED BY THE BANK THAT IMPORTS WILL EXPAND SHARPLY IN THE SECOND HALF DUE TO INVENTORY REPAIR AND EXPENDITURE OF HIGH FIRST HALF EXPORTS RECEIPTS BY THE ECONOMY.

6. ON CREDIT POLICY, THE CENTRAL BANK IS MONITORING LIQUIDITY IN THE PRIVATE SECTOR IN ORDER TO CONTRL STOCK BUILDING AND CONSUMPTION WHILE AT THE SAME TIME KEEPING FUNDS AVAILABLE FOR MEDIUM TERM INVESTMENT. THE FINANCIAL INSTITUTIONS, HOWEVER, STATE THAT DEMAND FOR INVESTMENTS AND FINANCIAL INSTITUTION CAPACITY TO RESPOND IS SNAGGED BY A COMBINATION OF GOVERNMENT LAWS AND REGULATIONS WHICH MAKE PROVISION OF CREDIT TO THE AGRICULTURAL (LARGEST) SECTOR EITHER HIGH RISK OR ILLEGAL. THERE IS COMMUNICATION BETWEEN THE PRIVATE SECTOR AND THE GOVERNMENT ON THE ISSUE, BUT ACCOMMODATION HAS NOT BEEN REACHED.

7. ON THE FISCAL SIDE, GENERAL RECEIPTS ARE CLOSE TO EXPECTATION. EXPENDITURES LIKEWISE. THE LAG IN PROJECT EXPENDITURES WHICH FORCED SHORT TERM BORROWING IN 1975 IS BEING GRADUALLY REDUCED.

8. ON BALANCE OF PAYMENTS CAPITAL FLOW, MOVEMENT IS DOMINATED BY INTERNATIONAL FINANCIAL INSTITUTION MEDIUM AND LONG TERM CREDITS.
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THE DEBT SERVICE RATION IS QUITE LOW, SO THERE IS LITTLE HINDERANCE TO BORROWING.

9. THE NET BALANCE OF PAYMENTS PICTURE INDICATES A $5 MILLION LOSS IN RESERVES IN FY 76, ALTHOUGH THE STRONG FIRST HALF PAYMENTS CONDITIONS HAVE RAISED THESE RESERVES TO A HISTORIC HIGH OF NEAR $100 MILLION. THE SECOND HALF SHOULD PULL THIS DOWN, BUT THE LEMPIRA WILL NOT BE PRESSURED.

10. THE OVERALL OUTLOOK IS FOR A STRONG PERFORMANCE DURING 1976. TO A MAJOR DEGREE, GROWTH IS BEING FINANCED BY INTERNATIONAL FINANCIAL INSTITUTIONS. HONDURAS HAS A TRADITIONALLY LOW FOREIGN DEBT/EXPORTS RATION, ABOUT 3.9 PERCENT. BECAUSE THE CREDITS

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BEING OBTAINED ARE MEDIUM AND LONG TERM, THE HIGH RATE OF GROWTH APPEARS TO BE SUSTAINABLE AS LONG AS THESE INSTITUTIONS LOOK WITH FAVOR ON HONDURAS. THE MEDIUM TERM PROBLEM FOR THE GOH IS TO OBTAIN HIGH RATE OF RETURN IN PRODUCTIVITY FROM THESE READILY OBTAINABLE CREDITS. THE PRESENT HIGH RATE OF GROWTH, COUPLED WITH A STRONG LOCAL CURRENCY AND LACK OF ANY EXCHANGE CONTROLS WOULD NORMALLY LEAD TO STRONGER LOCAL AND FOREIGN PRIVATE INVESTMENT ACTIVITY. THE MAJOR IMPEDIMENT IS INCOHERENCE OF GOVERNMENT AGENCY ACTIONS AND CONFUSED EXPECTATIONS ON THE PART OF POTENTIAL INVESTORS.
BARTCH

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**TAGS:** EFIN, ETRD, HO
**To:** STATE INFO GUATEMALA
MANAGUA
SAN JOSE
SAN SALVADOR
**Type:** TE
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